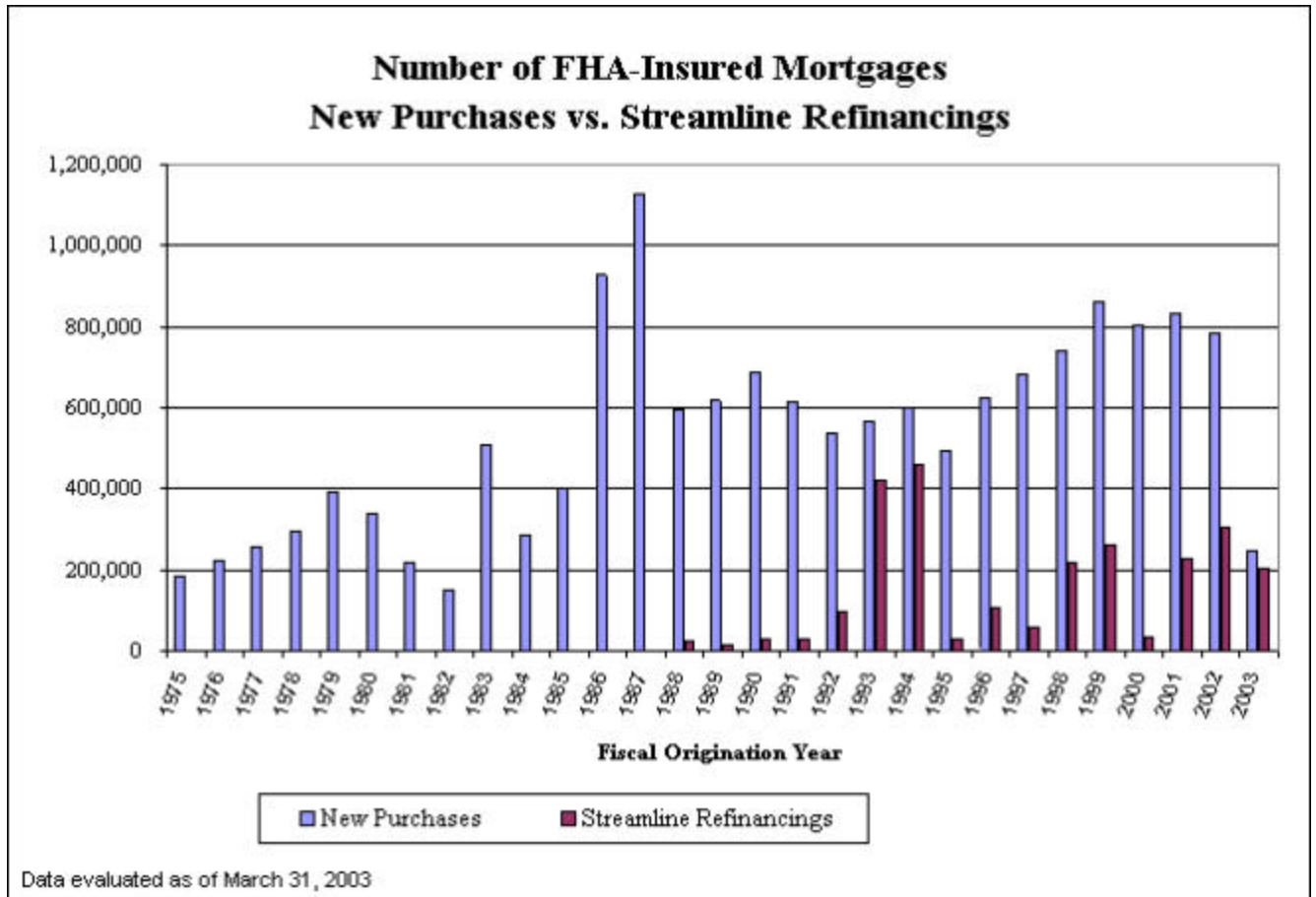


III. Characteristics of FY 2003 Book of Business

Volume of Mortgage Originations

Graph III-1 shows the annual number of loan purchase originations and the annual number of streamline refinancings (SRs) from FY 1975 to FY 2003.

Graph III-1



Note: (1) FY 2003 represents counts as of March 31, 2003, i.e., six months.

(2) New Purchases: 30-year fixed rate, 15-year fixed rate, and adjustable rate mortgages.

(3) Streamline Refinancings: Streamline refinanced 30-year rate, 15-year rate and adjustable rate mortgages.

Table III-1 shows the proportion of the different divisions that have historically made up FHA's book of business. The 30-year, fixed rate mortgages have historically accounted for the bulk of FHA's business and still constitute the majority.

Actuarial Review of MMI Fund as of FY 2003

Table III-1

FHA-Insured Originations by Loan Type (Percent of FHA Mortgages by Loan Count)						
Fiscal Origination Year	Purchases, Mortgages and Other Refinancings			Streamline Refinancings		
	30-Year Fixed Rate	15-Year Fixed Rate	Adjustable Rate	30-Year Streamline	15-Year Streamline	Adjustable Streamline
1975	99.5%	0.5%	0.0%	0.0%	0.0%	0.0%
1976	99.6%	0.4%	0.0%	0.0%	0.0%	0.0%
1977	99.7%	0.3%	0.0%	0.0%	0.0%	0.0%
1978	99.8%	0.2%	0.0%	0.0%	0.0%	0.0%
1979	99.9%	0.1%	0.0%	0.0%	0.0%	0.0%
1980	99.8%	0.2%	0.0%	0.0%	0.0%	0.0%
1981	99.7%	0.3%	0.0%	0.0%	0.0%	0.0%
1982	99.4%	0.6%	0.0%	0.0%	0.0%	0.0%
1983	93.1%	6.9%	0.0%	0.0%	0.0%	0.0%
1984	93.5%	6.5%	0.0%	0.0%	0.0%	0.0%
1985	91.1%	8.8%	0.1%	0.0%	0.0%	0.0%
1986	89.7%	9.6%	0.7%	0.0%	0.0%	0.0%
1987	90.7%	7.9%	1.4%	0.0%	0.0%	0.0%
1988	87.4%	4.6%	4.4%	3.1%	0.4%	0.0%
1989	92.9%	3.4%	1.3%	2.1%	0.2%	0.0%
1990	92.1%	3.5%	0.7%	3.5%	0.3%	0.0%
1991	87.7%	4.0%	3.6%	3.9%	0.7%	0.0%
1992	67.8%	3.2%	13.5%	11.3%	2.8%	1.3%
1993	45.2%	2.4%	9.8%	30.5%	10.2%	2.0%
1994	41.1%	2.1%	13.3%	29.6%	11.3%	2.5%
1995	67.8%	1.8%	24.7%	3.4%	1.6%	0.7%
1996	62.5%	1.5%	21.6%	9.6%	2.9%	1.8%
1997	60.3%	1.4%	30.5%	4.3%	1.3%	2.3%
1998	65.8%	1.2%	10.4%	18.2%	2.3%	2.0%
1999	72.2%	1.2%	3.4%	19.4%	2.9%	0.9%
2000	86.2%	0.9%	9.1%	2.6%	0.5%	0.6%
2001	75.9%	1.0%	1.6%	19.7%	1.1%	0.7%
2002	66.1%	1.2%	4.6%	22.4%	2.8%	3.0%
2003	51.4%	1.1%	2.5%	37.5%	4.8%	2.7%

Note: Data evaluated as of March 31, 2003

Loan-to-Value Distributions

The ratio of amount of loan to value of property is a strong indicator of risk of claims. All else being equal, a higher Loan-to-Value ratio (LTV) results in a higher probability of negative equity. Table III-2A and III-2B shows the distribution of LTV category for all loan types combined and 30 year fixed rates loans, respectively. Table III-3 shows the distribution of LTV category by loan type.

Table III-2A

Distribution of Originations by LTV Category <i>All Loan Types Combined</i> (Percent of Mortgages by Loan Count)									
Fiscal Origination Year	0- 75%	75- 80%	80- 90%	90- 95%	95- 97%	97- 98%	98- 100%	100- 105%	>105%
1975	3.1%	2.4%	15.1%	25.3%	27.0%	6.2%	16.6%	4.0%	0.3%
1976	2.2%	1.8%	10.3%	22.6%	27.5%	8.4%	21.1%	5.9%	0.3%
1977	2.7%	1.8%	9.9%	24.0%	26.2%	8.9%	20.0%	6.3%	0.3%
1978	2.9%	1.8%	9.9%	22.3%	25.1%	11.6%	20.5%	5.4%	0.4%
1979	4.4%	2.9%	14.4%	29.3%	21.3%	10.3%	14.6%	2.5%	0.3%
1980	7.6%	4.6%	21.7%	26.7%	18.1%	8.3%	11.0%	1.6%	0.4%
1981	8.5%	5.6%	30.0%	19.8%	17.8%	7.2%	9.2%	1.3%	0.5%
1982	14.0%	7.7%	28.8%	23.5%	17.1%	3.1%	4.7%	0.8%	0.5%
1983	15.2%	7.7%	27.0%	22.9%	17.2%	4.1%	5.0%	0.5%	0.3%
1984	11.1%	6.0%	25.2%	23.9%	21.9%	4.1%	7.0%	0.4%	0.2%
1985	9.5%	4.9%	25.4%	19.3%	19.8%	8.4%	8.3%	1.9%	2.5%
1986	11.6%	6.6%	27.8%	23.8%	20.7%	3.1%	3.7%	1.4%	1.2%
1987	11.6%	6.3%	26.7%	25.0%	22.1%	2.7%	4.2%	0.7%	0.6%
1988	6.9%	3.2%	16.6%	24.2%	27.3%	7.9%	11.7%	1.8%	0.5%
1989	5.3%	2.8%	14.8%	23.7%	26.6%	10.5%	14.0%	2.0%	0.3%
1990	4.5%	2.5%	12.7%	17.2%	20.3%	17.5%	21.2%	3.4%	0.5%
1991	4.2%	2.2%	13.3%	19.8%	23.2%	19.5%	15.3%	2.1%	0.4%
1992	2.3%	1.2%	7.4%	12.0%	45.0%	12.2%	17.1%	1.7%	1.1%
1993	1.3%	0.8%	4.4%	6.5%	22.6%	23.6%	37.1%	2.4%	1.2%
1994	1.3%	0.8%	3.7%	5.2%	18.6%	26.5%	39.8%	2.9%	1.2%
1995	1.0%	0.6%	3.6%	5.9%	27.4%	40.8%	18.0%	1.8%	1.0%
1996	0.9%	0.6%	3.5%	5.7%	25.6%	38.7%	21.1%	2.4%	1.6%
1997	1.1%	0.8%	4.0%	6.3%	26.9%	40.8%	16.3%	2.4%	1.5%
1998	1.5%	1.1%	5.5%	8.7%	24.6%	33.4%	20.3%	3.1%	1.8%
1999	3.4%	2.4%	12.4%	15.0%	27.1%	35.5%	3.7%	0.4%	0.1%
2000	1.8%	1.4%	6.6%	6.4%	32.1%	48.5%	3.0%	0.2%	0.0%
2001	2.4%	2.0%	9.8%	9.0%	33.1%	40.8%	2.7%	0.3%	0.0%
2002	3.0%	2.2%	10.7%	9.2%	34.3%	36.5%	3.8%	0.3%	0.1%
2003	3.9%	2.8%	12.7%	11.3%	32.3%	30.3%	6.4%	0.3%	0.0%

Note: Data evaluated as of March 31, 2003

Table III-2B

Distribution of Originations by LTV Category 30-Year Fixed Rate Mortgages Only (Percent of Mortgages by Loan Count)									
Fiscal Origination Year	0- 75%	75- 80%	80- 90%	90- 95%	95- 97%	97- 98%	98- 100%	100- 105%	>105%
1975	3.0%	2.4%	15.1%	25.4%	27.0%	6.2%	16.6%	4.0%	0.3%
1976	2.2%	1.8%	10.3%	22.6%	27.5%	8.4%	21.1%	5.9%	0.3%
1977	2.7%	1.8%	9.9%	24.0%	26.2%	8.9%	20.0%	6.3%	0.3%
1978	2.9%	1.8%	9.9%	22.3%	25.1%	11.6%	20.5%	5.4%	0.4%
1979	4.4%	2.9%	14.4%	29.3%	21.3%	10.3%	14.6%	2.5%	0.3%
1980	7.6%	4.6%	21.7%	26.7%	18.1%	8.3%	11.0%	1.6%	0.4%
1981	8.5%	5.6%	30.0%	19.8%	17.8%	7.3%	9.2%	1.3%	0.5%
1982	13.8%	7.7%	28.8%	23.6%	17.1%	3.1%	4.7%	0.8%	0.5%
1983	13.7%	7.5%	27.3%	23.5%	17.8%	4.2%	5.1%	0.5%	0.3%
1984	9.6%	5.8%	25.3%	24.5%	22.7%	4.2%	7.3%	0.4%	0.2%
1985	8.0%	4.7%	25.5%	19.8%	20.6%	8.7%	8.6%	1.8%	2.3%
1986	9.6%	6.3%	27.8%	25.0%	21.9%	3.3%	3.8%	1.3%	1.0%
1987	9.8%	6.0%	26.6%	26.0%	23.2%	2.8%	4.4%	0.7%	0.5%
1988	5.3%	2.9%	16.1%	24.9%	28.5%	8.2%	11.8%	1.8%	0.4%
1989	4.4%	2.6%	14.5%	24.1%	27.1%	10.9%	14.0%	2.0%	0.3%
1990	3.8%	2.4%	12.3%	17.2%	20.7%	18.3%	21.6%	3.5%	0.5%
1991	3.4%	1.9%	12.6%	19.9%	23.6%	20.4%	15.7%	2.1%	0.3%
1992	2.1%	1.1%	7.2%	12.7%	50.0%	13.5%	11.2%	1.3%	0.9%
1993	0.9%	0.6%	3.9%	7.7%	33.9%	34.4%	15.9%	1.6%	1.2%
1994	0.8%	0.5%	3.4%	6.2%	28.0%	41.6%	16.5%	1.7%	1.2%
1995	0.9%	0.6%	3.6%	5.8%	27.1%	42.7%	16.7%	1.8%	0.8%
1996	0.8%	0.6%	3.4%	5.7%	27.8%	44.2%	14.4%	2.0%	1.1%
1997	1.0%	0.8%	4.0%	6.0%	26.8%	43.8%	14.1%	2.2%	1.2%
1998	1.0%	0.9%	4.9%	9.1%	29.2%	40.7%	10.8%	2.0%	1.3%
1999	1.7%	1.4%	7.9%	12.5%	30.2%	42.4%	3.5%	0.3%	0.0%
2000	1.4%	1.1%	5.5%	5.7%	32.7%	50.1%	3.2%	0.2%	0.0%
2001	1.6%	1.4%	6.0%	5.8%	36.4%	46.5%	2.2%	0.2%	0.0%
2002	1.7%	1.4%	6.0%	5.7%	39.1%	44.1%	1.7%	0.2%	0.0%
2003	2.1%	1.7%	6.4%	5.9%	40.6%	41.7%	1.3%	0.2%	0.0%

Note: Data evaluated as of March 31, 2003

Table III-3

Distribution of LTV Category by Loan Type (Percent of Mortgages by Loan Count)						
LTV Category	30-Year Fixed Rate	15-Year Fixed Rate	Adjustable Rate	30-Year Streamline	15-Year Streamline	Adjustable Streamline
0-75%	4.1%	22.7%	0.7%	3.2%	9.9%	2.2%
75-80%	2.5%	7.3%	0.6%	2.3%	4.1%	2.1%
80-90%	13.8%	23.2%	5.8%	14.4%	14.1%	13.6%
90-95%	17.7%	11.8%	13.7%	13.3%	8.0%	12.7%
95-97%	32.9%	12.7%	49.6%	15.9%	9.4%	12.8%
97-98%	19.3%	6.1%	23.8%	10.2%	9.1%	10.1%
98-99%	5.3%	5.2%	3.0%	6.2%	7.9%	8.1%
99-100%	2.4%	3.5%	1.2%	32.0%	33.8%	34.0%
100-105%	1.1%	2.6%	0.8%	1.6%	2.1%	2.5%
>105%	0.8%	4.8%	0.9%	1.0%	1.6%	2.0%

Note: This distribution is based on all fiscal origination years combined as of March 31, 2003.

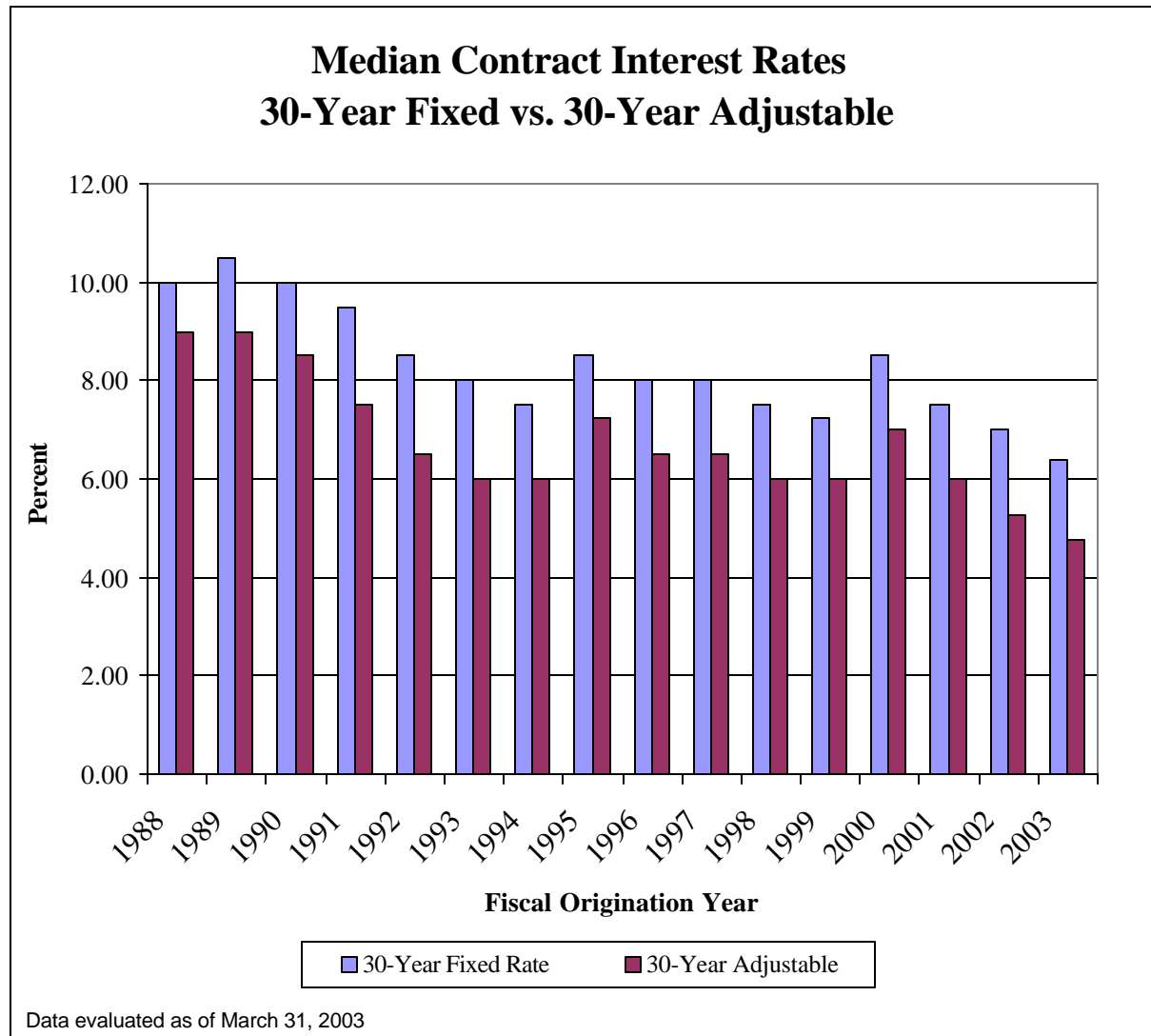
Initial Contract Interest Rate

Table III-4 shows the median contract interest rate by loan type. The median contract interest rate on fixed rate, 30-year loans have been decreasing since 2000 from 8.50 percent in 2000, to 7.50 percent in 2001, to 7.00 percent in 2002 and 6.375 percent in 2003 (through March 31, 2003). Graph III-2 provides a comparison between the median adjustable interest rates and the median fixed contract interest rates during the last 15 years.

Table III-4

Median Contract Interest Rates by Loan Type (in percent)							
Fiscal Origination Year	30-Year Fixed Rate	30-Year Streamline	30-Year Adjustable	Adjustable Streamline	15-Year Fixed Rate	15-Year Streamline	1-Year T-Bill Rate
1990	10.000	10.500	8.500	8.500	9.500	9.500	8.013
1991	9.500	10.000	7.500	7.500	9.000	9.000	6.468
1992	8.500	9.000	6.500	6.500	8.500	8.500	4.215
1993	8.000	8.000	6.000	6.000	7.500	7.500	3.443
1994	7.500	7.500	6.000	6.000	7.000	7.500	4.543
1995	8.500	8.500	7.250	7.500	8.500	9.000	6.237
1996	8.000	8.000	6.500	6.750	7.500	7.500	5.503
1997	8.000	8.500	6.500	6.750	7.750	8.000	5.629
1998	7.500	7.500	6.000	6.500	7.000	7.000	5.325
1999	7.250	7.000	6.000	6.000	7.000	6.875	4.773
2000	8.500	8.500	7.000	6.250	8.000	8.000	6.035
2001	7.500	7.500	6.000	6.000	7.000	6.875	4.395
2002	7.000	7.000	5.250	5.250	6.500	6.500	2.180
2003	6.375	6.375	4.750	4.750	5.875	5.500	1.244

Graph III-2



Note: The average relativity across 1989 through 2003 of the 30-year adjustable to the 30-year fixed rate is 0.8085.

Original Mortgage Amounts

Tables III-5 and III-6 show the original mortgage amounts by loan type and by LTV category. Table III-7 through III-12 shows the distribution of the original mortgage amounts for each loan type across LTV category. LTV is divided into four categories: high, investor, low, and medium.¹

Table III-5

Original Mortgage Amounts by Loan Type (in millions)						
Fiscal Origination Year	30-Year Fixed Rate	15-Year Fixed Rate	30-Year Adjustable	Adjustable Streamline	30-Year Streamline	15-Year Streamline
1988	32,805	1,375	1,858	14	1,106	129
1989	37,114	1,087	604	1	654	51
1990	43,731	1,305	375	1	947	86
1991	38,286	1,374	1,922	12	674	151
1992	29,523	1,038	7,239	631	4,260	935
1993	32,711	1,230	8,741	1,751	22,606	5,992
1994	33,035	1,109	13,366	2,287	22,821	6,610
1995	26,776	462	12,078	314	1,306	413
1996	36,869	594	15,476	1,291	5,936	1,196
1997	36,737	568	22,638	1,773	2,829	540
1998	56,028	728	10,319	2,102	16,792	1,422
1999	79,233	997	4,583	791	18,009	1,967
2000	73,619	566	9,477	561	1,786	252
2001	88,762	919	2,395	965	24,940	969
2002	82,853	1,176	7,327	4,279	29,382	2,375
2003	27,723	497	1,733	1,712	20,891	1,732
Total	755,804	15,025	120,130	18,486	174,938	24,820

Note: Data evaluated as of March 31, 2003

¹ LTV Low is defined by LTV values less than 83%. LTV Medium is defined by LTV values between 87% and 96%. LTV High is defined by LTV values greater than 96%. LTV Investor slightly overlaps LTV Medium as it is defined by more criteria than just the LTV value. It is defined by:

- (1) Living units that are greater than one;
- (2) Borrower type being either landlord, builder, operative builder, escrow commitment or corporation;
- (3) LTV values between 83% and 87%.

Table III-6

Original Mortgage Amount by LTV Category (in millions)				
All Loan Types Combined				
Fiscal Origination Year	Initial LTV Category			
	High	Medium	Investor	Low
1988	10,522	18,709	3,925	4,131
1989	13,668	18,863	3,570	3,410
1990	23,527	15,713	3,676	3,528
1991	20,224	15,763	3,428	3,004
1992	24,238	15,242	2,552	1,595
1993	54,987	13,280	3,101	1,662
1994	61,961	12,125	3,483	1,659
1995	30,298	8,096	2,321	634
1996	45,624	11,216	3,599	921
1997	46,936	12,682	4,297	1,169
1998	60,744	18,314	6,138	2,195
1999	61,258	27,425	10,590	6,307
2000	66,775	9,796	6,825	2,865
2001	82,757	19,280	10,943	5,969
2002	86,921	20,855	12,168	7,449
2003	34,221	10,533	5,488	4,046
Total	724,661	247,893	86,105	50,545

Note: Data evaluated as of March 31, 2003

Table III-7

Distribution of Original Mortgage Amounts for 30-Year Fixed Rate Mortgages by LTV Category				
Fiscal Origination Year	LTV Category			
	High	Medium	Investor	Low
1995	73.61%	19.46%	5.35%	1.58%
1996	73.25%	19.58%	5.79%	1.38%
1997	72.00%	19.65%	6.46%	1.89%
1998	67.54%	23.74%	6.69%	2.03%
1999	66.83%	21.47%	8.28%	3.42%
2000	79.87%	10.16%	7.33%	2.64%
2001	79.25%	9.97%	7.54%	3.24%
2002	79.45%	9.62%	7.43%	3.50%
2003	78.36%	9.72%	7.68%	4.24%
All Year Average	74.46%	15.93%	6.95%	2.66%
2- Year Average	78.91%	9.67%	7.55%	3.87%
3- Year Average	79.02%	9.77%	7.55%	3.66%

Note: Data evaluated as of March 31, 2003

Table III-8

Distribution of Original Mortgage Amounts for 15-Year Fixed Rate Mortgages by LTV Category				
Fiscal Origination Year	LTV Category			
	High	Medium	Investor	Low
1995	68.19%	12.39%	8.79%	10.62%
1996	72.22%	11.55%	8.28%	7.95%
1997	68.08%	11.79%	9.48%	10.65%
1998	64.86%	12.52%	11.36%	11.27%
1999	26.67%	18.35%	24.83%	30.15%
2000	39.38%	14.77%	19.90%	25.95%
2001	32.94%	14.74%	21.11%	31.20%
2002	29.61%	13.58%	22.13%	34.67%
2003	25.48%	13.94%	21.90%	38.67%
All Year Average	47.49%	13.74%	16.42%	22.35%
2- Year Average	27.55%	13.76%	22.02%	36.67%
3- Year Average	29.35%	14.09%	21.72%	34.85%

Note: Data evaluated as of March 31, 2003

Table III-9

Distribution of Original Mortgage Amounts for Adjustable Rate Mortgages by LTV Category				
Fiscal Origination Year	LTV Category			
	High	Medium	Investor	Low
1995	70.01%	22.80%	6.28%	0.92%
1996	70.28%	22.39%	6.38%	0.95%
1997	69.43%	22.70%	6.69%	1.19%
1998	67.63%	24.20%	7.02%	1.15%
1999	73.36%	16.53%	7.66%	2.45%
2000	77.61%	13.27%	6.85%	2.27%
2001	74.42%	14.84%	7.35%	3.40%
2002	76.86%	12.71%	7.23%	3.19%
2003	73.50%	13.86%	8.62%	4.02%
All Year Average	72.57%	18.15%	7.12%	2.17%
2-Year Average	75.18%	13.29%	7.92%	3.61%
3-Year Average	74.93%	13.80%	7.73%	3.54%

Note: Data evaluated as of March 31, 2003

Table III-10

Distribution of Original Mortgage Amounts for 30-Year Streamline Refinanced Mortgages by LTV Category				
Fiscal Origination Year	LTV Category			
	High	Medium	Investor	Low
1995	90.16%	3.65%	4.23%	1.96%
1996	86.88%	5.80%	5.33%	1.99%
1997	84.92%	5.26%	7.53%	2.29%
1998	75.65%	12.81%	8.10%	3.44%
1999	24.30%	47.23%	16.15%	12.32%
2000	15.19%	37.68%	27.32%	19.81%
2001	39.75%	36.98%	14.17%	9.10%
2002	44.35%	32.28%	14.25%	9.12%
2003	48.51%	30.37%	12.29%	8.83%
All Year Average	56.63%	23.56%	12.15%	7.65%
2-Year Average	46.43%	31.32%	13.27%	8.97%
3-Year Average	44.20%	33.21%	13.57%	9.02%

Note: Data evaluated as of March 31, 2003

Table III-11

Distribution of Original Mortgage Amounts for 15-Year Streamline Refinanced Mortgages by LTV Category				
Fiscal Origination Year	LTV Category			
	High	Medium	Investor	Low
1995	86.86%	4.28%	4.08%	4.78%
1996	82.56%	5.47%	4.80%	7.17%
1997	79.06%	4.73%	5.46%	10.75%
1998	65.72%	9.42%	7.84%	17.02%
1999	6.36%	29.33%	19.83%	44.47%
2000	4.18%	22.40%	22.88%	50.54%
2001	10.29%	33.31%	21.37%	35.03%
2002	12.09%	33.46%	20.65%	33.80%
2003	13.28%	34.46%	18.56%	33.71%
All Year Average	40.04%	19.65%	13.94%	26.36%
2- Year Average	12.68%	33.96%	19.60%	33.75%
3- Year Average	11.88%	33.74%	20.19%	34.18%

Note: Data evaluated as of March 31, 2003

Table III-12

Distribution of Original Mortgage Amounts for Adjustable Streamline Refinanced Mortgages by LTV Category				
Fiscal Origination Year	LTV Category			
	High	Medium	Investor	Low
1995	89.71%	3.10%	5.53%	1.66%
1996	90.47%	4.17%	4.13%	1.24%
1997	87.65%	4.62%	6.47%	1.26%
1998	86.29%	6.66%	5.41%	1.65%
1999	21.96%	49.65%	16.68%	11.71%
2000	21.07%	44.07%	21.06%	13.80%
2001	32.82%	40.84%	14.56%	11.78%
2002	41.90%	35.45%	12.79%	9.86%
2003	42.86%	34.34%	12.32%	10.48%
All Year Average	57.19%	24.77%	10.99%	7.05%
2- Year Average	42.38%	34.89%	12.55%	10.17%
3- Year Average	39.20%	36.88%	13.22%	10.71%

Note: Data evaluated as of March 31, 2003